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SENSITIVE

DEPT FOR EAP/CM AND EB/ESC SIMONS
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SUBJECT: July 13 Preparatory Meeting for Energy Ministerial Roundtable

11. (SBU) Summary and Comment: On July 13, China's National Development and Reform Commission (NDRC) hosted a successful preparatory meeting to discuss a proposed five country Energy Ministerial Roundtable in Beijing later this fall. Reflecting input from the Japanese and Korean delegations, the Chinese proposed the October 24-27 timeframe as tentative dates for the ministerial, and asked delegations to provide feedback by the end of July on the suitability of those dates. Bowing to suggestions from the U.S. and other delegations, the Chinese also agreed to broaden the scope of the meeting to include separate discussions of energy security and strategic oil stocks, diversification of energy supply and alternative sources, investment and the energy market, major challenges and priorities of international cooperation, and energy conservation and efficiency. Participants also made some initial progress toward a potential Joint Statement, shifting the focus from the original Chinese emphasis on oil markets toward a broader effort to point to areas of common interest. Demonstrating a flair for multilateral diplomacy, the Chinese delegation adopted a flexible, responsive approach to suggestions from the other delegations, which should bode well for the success of the eventual meeting. End Summary and Comment.

-- Five Party Energy Preparatory Meeting

12. (U) The Preparatory Meeting for a proposed five country Energy Ministerial Roundtable was held in Beijing on June 13, 2006. Bringing together representatives from the United States, China, South Korea, Japan and India, the Chinese sponsored meeting's purpose was to discuss the time/venue, agenda, and basic outline of a Joint Statement to be issued at the proposed Ministerial. The U.S. was represented by Paul Simons, Deputy Assistant Secretary of State for Energy and Sanctions, Tom Cutler, Director of Asia and Europe for the Department of Energy, Embassy DOE rep, EconMin, and other emboffs.

13. (U) China's delegation consisted of senior NDRC officials including Vice Chairman Zhang Guobao, Zhao Xiaoping, Director General for Energy, Ma Xin, NDRC director General for Foreign Affairs, Xu Yongsheng, Deputy

Director General for Energy, and Li Bin, Deputy Director General for Foreign Affairs.

14. (U) Prior to the meeting, the U.S. delegation held preparatory sessions with the delegations of Japan, Korea and India, and also met with U.S. private sector representatives for their input. On the margins of the meeting, the U.S. delegation also met with IEA Deputy Director General Bill Ramsay, as well as senior officials from CNOOC, SINOPEC, the CNPC Research Center, and the NDRC Energy Research Institute.

-- Preparatory Meeting: Chinese Opening Statement

15. (U) NDRC Vice Chairman Zhang Guobao led off with opening remarks which focused on the value of this grouping of large consuming countries to speak with one voice on energy issues. Speaking without notes, Zhang noted that the solution to this problem needed to take into account the policies of China and India, which ranked third in global energy consumption behind the U.S. and Japan and as "rising economies" were increasingly important players. He said the solution would need to encompass a mixture of conservation, domestic supply incentives, as well as expansion of alternative fuels and renewables, and acknowledged that with a high energy consumption/GDP ratio, China had "a lot of work to do". He noted the significance of the five countries gathered - all were major oil consumers and importers, and all were located in the Asia Pacific region. Zhang pressed for an early ministerial, ideally in late August, and expressed confidence that such a meeting could help stabilize oil prices by "containing speculation" which he said some had quantified as

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accounting for \$10-15/bbl of the current high oil market prices. He noted that the meeting had been discussed with Secretary Bodman in Doha and that Secretaries Rice and

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Deputy Secretary Zoellick had also expressed "interest" in China's initiative. Energy Director Zhao Xiaoping followed with remarks which highlighted the important signal such a meeting could send to the international community and the fact that Chinese consumption alone could not account for the current high price levels in international oil markets.

- Preparatory Meeting: Japan, South Korea and India - Opening Remarks

16. (SBU) Kazuhiko Hombu, Deputy Director General of the Ministry of Economy, Trade and Industry presented Japan's opening statements. Welcoming the five party concept, he said that Japan was "positive" about the idea of bringing the five countries together. That said, given the likelihood of Japanese parliamentary elections in September, he suggested that the proposed ministerial date of late August was a "little too early" and more time would be needed to prepare. Hombu said that the Beijing venue was "OK" but also noted that Japan might field a vice minister for the meeting. Hombu suggested adding the following topics to the agenda: impact of oil on the world economy, transparency and investment in energy markets, improvements of energy demand structure (conservation, clean coal, renewables), use of the Asia Pacific Partnership to promote clean and efficient energy, and cooperation on emergency response capabilities, including strengthening strategic stocks of oil, and developing closer relations between China and India and the IEA. Hombu noted that both the agenda and the communiqué would need to be referred to Tokyo for final approval.

17. (SBU) Seok Cho, the Director-General of Korea's Ministry of Commerce, Industry and Energy also welcomed the five party concept and China's preparatory work. He

commented that the proposed date of the meeting was too early, and noted that specific items with respect to the agenda and the joint statement would need to be reviewed in Seoul before final positions could be agreed.

¶8. (SBU) Prabh Das, Joint Secretary of the Indian Ministry of Petroleum and Gas, stated that the three key challenges of sustainable development, access to resources and price stability all should be addressed through the Ministerial meeting. The high cost of oil, he said, was being absorbed by developing countries through huge subsidies that directed much needed funds away from social and education sectors. Das echoed the Chinese argument that China and India were not the principal contributors to current high oil prices, noting fairly modest Indian oil demand despite an impressive eight percent GDP growth rate last year. Das also pointed to pricing problems for oil in the Asian market which he suggested be addressed in the Ministerial. Finally, he noted that current high oil prices would spur more efficiency and conservation.

¶9. (SBU) Das suggested creating an "Axis of Sustainable and Affordable Energy". He recommended that the following areas should be covered in the agenda: structural shortcomings, sustainable development and access to hydrocarbon resources, a framework for cooperation among consumers and producers for security and sustainability of energy, increased efficiency, conducting joint research, sharing technology, promoting sustainable growth, protecting the environment through the use of green fuels and promoting alternative sources of energy like biofuels.

-- Preparatory Meeting: U.S. Delegation Opening Remarks

¶10. (SBU) Summing up the discussion, Department of State Deputy Assistant Secretary (DAS) for Economic Affairs Paul Simons welcomed the Chinese initiative and noted that it was consistent with broader U.S. efforts to bring China and India into a more prominent role in global energy

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discussions. He noted that the five participating countries were increasingly important players on the global energy stage, with EIA forecasts suggesting that they would account for more than half of global oil consumption by the year 2025.

¶11. With respect to the agenda, U.S. representatives noted that it would be important to move beyond a narrow focus on short term oil markets to a broader approach which highlighted the commonality of approach of the five countries. For example, all five participants shared interests in the development of a global liquified Natural Gas (LNG) market, accelerated uptake of clean coal technologies, nuclear energy and energy efficiency. All five countries needed to focus on the use of alternative fuels to power their respective transport sectors. The world's energy future would be determined to a large degree by how the five participating countries handled those issues. Rather than seeking to influence oil prices through a narrowly crafted joint statement, a broader approach that focused on shared interests in resolving longer term energy security challenges might be a better approach. Such a statement could reference the work of existing institutions and fora, including International Energy Forum (IEF), International Energy Agency (IEA), APEC, Asia Pacific Partnership, and others, while not advocating the creation of any new bureaucracy.

¶12. With respect to substantive issues, DAS Simons laid out the four suggestions highlighted in previous U.S. guidance on the five party ministerial - coordination of strategic petroleum reserve management; improving data transparency; cooperation on energy use in the transportation sector, including biofuels; and a focus on market principles for energy, possibly tracking the

approach to be followed at the G8 summit.

¶13. (SBU) With respect to next steps, DAS Simons suggested creation of an email collective; rather than another face to face preparatory meeting, he suggested e-mail comments or conference calls to resolve remaining issues. He echoed the comments of the Japanese and Korean delegations that all issues with respect to timing, agenda, and joint statement would need to be endorsed by capitals prior to final decisions.

-- Proposed Ministerial Scheduling: Suggested dates of October 24-27

¶14. (SBU) Discussion opened on the scheduling of specific dates for the Ministerial meeting. The Chinese opened with a proposal for late August; Japan and Korea wanted no specific dates but wanted the meeting pushed back into October at the earliest; the U.S. suggested "some time in the fall". The Chinese insisted on penciling in tentative dates to be taken back to capitals, with a suggestion of 15 October. The Korean delegate objected to this timeframe, noting that it conflicted with IEA Governing Board meetings. The Chinese responded with tentative dates of October 24-27, and asked delegations to consult in capitals and confirm by end-July if those dates were suitable.

-- Proposed Ministerial Agenda/Three Days of Meetings, Site Visits

¶15. DG Li opened discussion on the agenda, proposing five topics to discuss: the energy situation, oil pricing, oil substitution, energy efficiency, and energy conservation. He proposed that each Minister make a 15-minute keynote speech on one topic immediately followed by a 15-minute discussion of the topic. Afterwards, there would be a press conference and the issuance of a joint statement on the meetings. The meeting would wrap up in the early afternoon.

¶16. Delegates from the other four countries raised a number of modifications to the proposed schedule; most

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supported the U.S. focus on a broader agenda allowing for more detailed discussion of key topics.

¶17. (SBU) After extensive discussion with the participating delegates, the Chinese delegation produced a considerably revised second working draft of the agenda, which will be shown to the Ministers of each country for approval:

Day 1

-- Morning registration

-- Afternoon bilateral meetings (according to each Minister's individual plans)

-- Evening welcome dinner

Day 2

-- 8:30-9:00 NDRC Chairman Ma Kai meets with Ministers (TBD)

-- 9:00-10:15 15-minute opening Ministerial addresses in the following order: China, India, Japan, Korea, the U.S.

-- 10:15-10:30 Tea break

-- 10:30-15:30 Structured thematic dialogue led by Ministers

1- Energy security and strategic oil stocks (U.S.)

2- Diversification of energy supply and alternative sources (South Korea)

- 3- Investment and the energy market (Japan)
- 4- Major challenges and priorities of international cooperation (India)
- 5- Energy conservation and efficiency improvement (China)

-- 12:30-13:30 Working lunch

-- 13:30-15:30 Continue thematic dialogue

-- 16:00-16:30 Joint Press Conference

-- 17:00-17:30 State leaders meet with Ministers (TBD)

-- 18:00-20:00 Farewell dinner

Day 3

-- Individual site visits.

-- Proposed Ministerial: Working the Joint Statement Draft

¶18. (SBU) With respect to the draft Joint Statement issued by the Chinese, most delegations agreed that it would be difficult to make progress on such a document until the agenda was finalized and ministers contributions could be appropriately incorporated. The Chinese government distributed an initial draft which focused heavily on the current oil market situation. Japan argued for a broadening of the document to reflect a commitment to market principles; evidence of international cooperation; and alternative fuels. The U.S. delegation remarked that in order to be effective, the Joint Statement as well as the press conference themes would need to demonstrate a united front of the five countries, and that it would be particularly important to highlight the shared approaches adopted by the five countries to our key medium and long term challenges. The U.S. suggested several edits to the draft communique which removed some of the heavy focus on current oil market instability, highlighted the importance of intensified cooperation on strategic stocks, and introduced the concept of diversification of fuels in the transport sector. A revised, bracketed Joint Statement, which incorporated most of the U.S. Delegation's and other delegations' suggestions, was provided to the respective delegations for further review and discussion.

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Comment

¶19. (SBU) Chinese officials adopted a highly flexible approach to this multilateral meeting, taking on board suggestions from other delegations on the issues of timing, agenda, and the joint statement, and clearly seeking to use the proposed ministerial to present a united front on energy to the broader world stage. This flexible approach - if sustained -- bodes well for the ultimate success of the Ministerial gathering. End Comment.

¶20. (SBU) EB/ESC DAS Simons cleared this report.

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